



# Australian Bureau of Statistics

## 1350.0 - Australian Economic Indicators, Jan 2002

ARCHIVED ISSUE Released at 11:30 AM (CANBERRA TIME) 10/01/2002

### Feature Article - Foreign Ownership of Equity

This article was published in Balance of Payments and International Investment Position, Australia (cat. no. 5302.0) September, 2001

#### INTRODUCTION

This article updates the analysis of foreign ownership of Australian equity presented in the December quarter 2000 issue of **Balance of Payments and International Investment Position, Australia** (Cat. no. 5302.0). The data presented here are sourced from:

- for rest of world holdings of Australian equity, table 33 of this publication and more detailed data underlying the published aggregates; and
- for total and sectoral aggregates of Australian equity on issue, tables 40 and 41 of the June quarter 2001 issue of **Australian National Accounts: Financial Accounts** (Cat. no. 5232.0).

A brief explanation of how the financial accounts can be used to derive estimates of foreign ownership of equity in Australian enterprise groups is provided below. For a more detailed explanation, see the earlier article published in the June quarter 1992 issue of **International Investment Position, Australia** (Cat. no. 5306.0). That article also explains the relationship between these measures and measures derived from earlier foreign participation studies.

The data cover financial instruments classified as equity, which are mainly listed and unlisted shares and units in trusts. Instruments convertible to equity, such as convertible notes, are not treated as equity until converted. Ownership of property by non-residents and ownership of Australian branches of foreign companies are also treated as equity for the purposes of these statistics. The data for amounts on issue for each sub-sector are consolidated by excluding amounts held by related companies in the same sub-sector. Market valuations are used where possible; for the cases where market values are not available, net asset value (total assets less non-equity liabilities and less the paid up value of non-voting shares) has been used as a proxy. A non-resident is defined as any individual, enterprise or other organisation ordinarily domiciled in a country other than Australia. For further definitions of the concepts and methods employed in compiling the source data see **Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods** (Cat. no. 5331.0) and the Explanatory Notes to **Australian National Accounts: Financial Accounts** (Cat. no. 5232.0).

By expressing the value of equity issued by a particular sector and held by the rest of world (non-residents) as a percentage of the total value of all equity issued by that sector, it is possible to derive an estimate of the percentage of foreign ownership in that sector. For example, at 30 June 2001, equity held by 'rest of world' in banks was \$45.6b, or 26% of the total equity of \$177.3b issued by banks. Likewise, an estimate of total foreign ownership of equity in all Australian enterprises can be derived by summing the equity held by non-residents across all sectors and dividing this by the total value of equity issued by all sectors. Estimates of foreign ownership by

sector are shown in Table F1.

## ANALYSIS OF RESULTS

Table F1 shows that the value of equity on issue by Australian enterprise groups at 30 June 2001 stood at \$1,224b. Of this total, 68% related to shares or similar equity interests issued by corporate trading enterprises. Banks accounted for a further 14% of total equity issued, while lesser amounts were issued by 'non-bank deposit taking institutions' (2% of the total); the Reserve Bank (1%); and other financial sub-sectors, including life and other insurance corporations and central borrowing authorities (15%).

Of the total equity on issue at 30 June 2001, non-residents held equity valued at \$345b (28%), while residents held \$879b (72%).

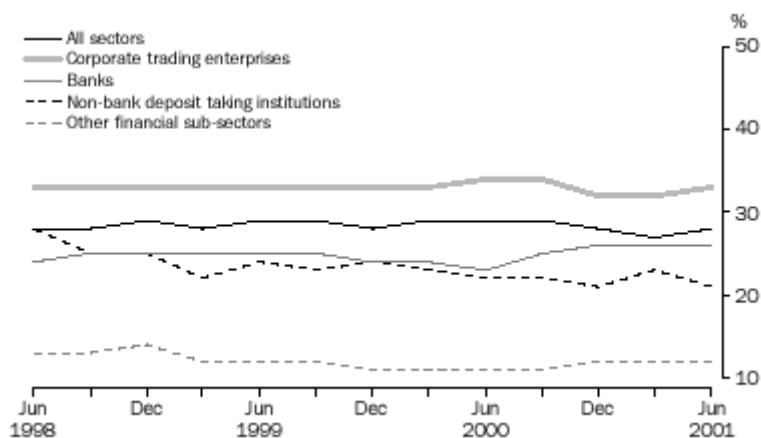
Although the total value of equity on issue has increased by 39%, from \$879b to \$1,224b over the three-year period since 30 June 1998, the proportion of equity held by non-residents has remained relatively stable at around 28%.

Analysed by sub-sector, at 30 June 2001 non-residents held 33% of the equity in corporate trading enterprises, which has changed little over recent years. The value of equity on issue by corporate trading enterprises at 30 June 2001 increased 2% on the previous year, and 37% over the three years since 30 June 1998. This increase in the value of equity on issue is due in part to privatisations in this sector.

The value of equity on issue by banks has increased 71% over the period 30 June 1998 to 30 June 2001 and the proportion of non-resident holdings of the total equity on issue by banks has increased from 24% to 26% during this period.

The value of equity on issue by 'other' financial sub-sectors has increased 31% over the three year period 30 June 1998 to 30 June 2001. The foreign ownership of this sub-sector's equity fell from 13% at 30 June 1998 to 12% at 30 June 2001, due largely to the non-resident share of the issued capital of the newly privatised corporations being lower than their relative share in other equity investments in this sub-sector.

### FOREIGN OWNERSHIP OF AUSTRALIAN ENTERPRISE GROUPS BY SECTOR



### PROBLEMS WITH THE DATA THAT MAY IMPACT ON ANALYSIS

Data for equity on issue for unlisted corporations are of lesser quality than the data supplied by the Australian Stock Exchange for listed corporations. Data for unlisted corporations are

compiled from returns supplied in the ABS Survey of Financial Information, ABS Survey of International Investment, selected annual reports and estimates synthesised from analysing residual items in demand and supply tables for the various share markets.

Care should be exercised in interpreting the regional data shown in table F2. Source data do not always clearly identify the country of the non-resident transactor. Accordingly, the values shown in table F2 for the USA, UK and Japan may be understated by amounts attributed to 'country unspecified' in the other countries category.

## **REGIONAL ANALYSIS**

As shown in table F2, the value of holdings of equity in Australian enterprise groups by non-residents can be further disaggregated according to the country of residence of the immediate holder. This disaggregation has been done as at the end of each financial year.

At 30 June 2001, UK residents owned \$124.3b (36%) of the foreign-owned equity in Australian enterprise groups, accounting for 10% of total equity on issue. At the same point in time, USA residents owned \$112.2b (33%) of the foreign equity holdings in Australian enterprise groups, while residents of Japan owned a further \$15.5b (5%). The USA and Japanese holdings accounted for 9% and 1% respectively of total equity on issue.

UK and USA residents both owned 34% of the total non-resident equity investment in Australian corporate trading enterprises on issue at 30 June 2001, while residents of Japan owned a further 5%. The UK and USA holdings each accounted for 11% of the total equity of Australian corporate trading enterprises on issue, while Japanese holdings accounted for a further 2%.

The USA, UK and Japan generally have the biggest participation rates in the other sectors, although their respective contributions vary significantly across these sectors. For example, at 30 June 2001, residents of the UK owned 51% of the total non-resident equity investment in Australian banks, but only 2% of the non-resident equity in non-bank deposit taking institutions. Although residents of Japan owned 21% of the total non-resident equity investment in non-bank deposit taking institutions at 30 June 2001, their participation rates in the remaining sectors are relatively small when compared with their UK and US counterparts.

Residents of APEC economies accounted for \$151b (44%) of foreign-owned equity in Australian enterprise groups at 30 June 2001, while residents of EU countries accounted for \$149b (43%). The holdings of residents in APEC and EU countries each accounted for 12% of the total equity on issue. The holdings of residents of OECD member countries amounted to \$295b, which accounted for 85% of total foreign-owned equity and 24% of total equity on issue.

## **SIGNIFICANT FOREIGN INFLUENCE**

The concept of direct investment is broadly one of capital invested in an enterprise by an investor having a significant influence, either actually or potentially exercised, over the key policies of the enterprise (called a direct investment enterprise). Ownership of 10% or more of the voting shares (or an equivalent equity interest) is regarded as indicative of significant influence by an investor.

Three enterprise group dissections are shown in table F3 and these can be associated with three different levels of foreign influence: foreign control; significant foreign influence but not necessarily foreign control; and other foreign influence. First, direct investment enterprise groups over 50% owned by their direct foreign investors are groups in which there is significant foreign influence that is clearly sufficient to allow foreign control. Second, direct investment enterprise groups 10%--50% owned by their direct foreign investors are groups in which there is significant

foreign influence but not necessarily sufficient to allow foreign control. Third, other enterprise groups are groups in which there are foreign equity interests that are below the threshold used in defining significant foreign influence, as no foreign investor holds 10% or more of the equity. Analysis of data on equity issued to non-residents by direct investment enterprise groups in Australia as a proportion of total equity on issue provides an indication of the amount of influence non-residents have as a result of their equity holdings.

As shown in table F3, at 30 June 2001, \$178b (52%) of the total foreign equity holdings of \$345b was in the form of direct investment, with the remaining \$167b (48%) being in the form of portfolio investment. These amounts represented 15% and 14% respectively of the total equity on issue. These proportions vary significantly across sectors.

In other words, the \$178b of equity held in the form of foreign direct investment represents 15% of the total equity on issue at 30 June 2001 being held by non-residents who had significant influence in the issuing Australian enterprises. This influence in most cases was sufficient to provide control, as \$162b (91%) of the equity held by those non-residents was in enterprise groups where a direct foreign investor held more than 50% of the shares. The direct investment equity associated with majority direct foreign ownership also accounted for 47% of all foreign equity and 13% of all equity issued in Australia.

## FOR MORE INFORMATION

The data used in this analysis are available from the International Investment Section of the Australian Bureau of Statistics. For more information about the type of foreign participation analysis that can be undertaken or the availability of related statistics, contact Graeme Groves on Canberra 02 6252 5364 or email <graeme.groves@abs.gov.au>.

## F1 OWNERSHIP OF EQUITY IN AUSTRALIAN ENTERPRISE GROUPS(a), Value of Equity Outstanding at End of Period

	1997-98	1998-99	Sep Qtr 1999	Dec Qtr 1999	Mar Qtr 2000	Jun Qtr 2000	Sep Qtr 2000	Dec Qtr 2000	Mar Qtr 2001	Jun Qtr 2001
All sectors										
Amount issued (\$b)	878.5	998.6	988.4	1,087.7	1,113.8	1,140.6	1,148.1	1,120.0	1,121.6	1,223.5
Amount held by rest of world (\$b)	249.5	288.7	284.0	307.7	322.6	328.4	330.7	308.4	308.1	344.8
Percentage of foreign ownership (%)	28	29	29	28	29	29	29	28	27	28
Sub-sectors										
Corporate trading enterprises(b)										
Amount issued(c) (\$b)	608.5	732.2	730.1	790.4	825.6	814.4	817.9	778.1	778.2	833.8
Amount held by rest of world (\$b)	201.8	240.6	239.3	259.3	276.5	275.6	274.5	245.5	246.0	273.0
Percentage of foreign ownership (%)	33	33	33	33	33	34	34	32	32	33
Banks										
Amount issued(c) (\$b)	103.6	112.8	105.9	114.4	105.9	138.2	137.0	151.4	146.0	177.3
Amount held by rest of world (\$b)	25.1	28.3	26.0	27.4	25.5	31.2	33.9	38.9	37.9	45.6
Percentage of foreign ownership (%)	24	25	25	24	24	23	25	26	26	26
Non-bank deposit taking institutions										
Amount issued(c) (\$b)	15.8	16.5	16.9	17.1	16.5	16.8	17.1	17.9	17.3	18.7
Amount held by rest of world (\$b)	4.3	4.0	3.9	4.1	3.8	3.7	3.7	3.8	3.9	4.0
Percentage of foreign ownership (%)	28	24	23	24	23	22	22	21	23	21
Other financial sub-sectors(d)										
Amount issued(c) (\$b)	138.0	126.2	126.6	157.2	155.4	160.8	165.0	162.2	166.5	181.3

Amount held by rest of world (\$b)	18.2	15.8	14.7	16.9	16.7	17.9	18.5	20.2	20.3	22.3
Percentage of foreign ownership (%)	13	12	12	11	11	11	11	12	12	12
Reserve Bank										
Amount issued(e)(f) (\$b)	12.6	10.9	9.0	8.5	10.5	10.4	11.1	10.4	13.5	12.3

(a) Equity includes units in trusts.

(b) Includes private non-financial corporations; and national, state and local public non-financial corporations.

(c) These estimated market values are considered to be of poor quality. They should be used cautiously. See the section on data problems in this article for further details.

(d) Includes life and other insurance corporations; central borrowing authorities; and other financial institutions.

(e) Net asset values.

(f) There is no foreign ownership in this sub-sector.

Source: Tables 40 and 41 in Australian National Accounts: Financial Accounts (Cat. no. 5232.0), June quarter 2001, and Table 33 in this publication.

## F2 OWNERSHIP OF EQUITY IN AUSTRALIAN ENTERPRISE GROUPS BY NON-RESIDENTS(a)

Geographical location of immediate investor by Sector/Country/Country groups	30 June 1999		30 June 2000		30 June 2001	
	\$b	%	\$b	%	\$b	%
All sectors	288.7	100	328.4	100	344.8	100
United States of America	101.0	35	115.9	35	112.2	33
United Kingdom	98.1	34	113.9	35	124.3	36
Japan	14.9	5	15.6	5	15.5	5
Other countries(b)	74.7	26	83.1	25	92.7	27
OECD	255.7	89	291.4	89	294.6	85
APEC	136.9	47	153.1	47	150.7	44
EU	122.4	42	141.6	43	148.8	43
ASEAN	5.4	2	5.4	2	7.6	2
Sub-sectors(c)						
Corporate trading enterprises(d)	240.6	100	275.6	100	273	100
United States of America	88.8	37	101.4	37	92.3	34
United Kingdom	80.8	34	94.0	34	94.1	34
Japan	12.3	5	13.0	5	13.1	5
Other countries(b)	58.7	24	67.2	24	73.5	27
Banks	28.3	100	31.2	100	45.6	100
United States of America	8.0	28	9.6	31	13.5	30
United Kingdom	12.3	43	14.5	47	23.4	51
Japan	1.1	4	1.0	3	1.1	2
Other countries(b)	6.9	24	6.0	19	7.7	17
Non-bank deposit taking institutions	4.0	100	3.7	100	4.0	100
United States of America	1.2	30	1.1	29	1.2	29
United Kingdom	0.2	4	0.1	1	0.1	2
Japan	1.1	27	1.0	27	0.8	21
Other countries(b)	1.6	39	1.6	42	1.9	48
Other financial sub-sectors(e)	15.8	100	17.9	100	22.3	100
United States of America	3.0	19	3.8	21	5.3	24
United Kingdom	4.8	31	5.3	30	6.8	31
Japan	0.5	3	0.5	3	0.5	2
Other countries(b)	7.4	47	8.3	46	9.7	43

(a) Total equity held by non-residents, includes direct and portfolio equity investment.

(b) Includes unspecified and all other countries.

(c) Data for Reserve Bank are not shown, as there is no foreign ownership in this sub-sector.

(d) Includes private non-financial corporations; and national, state and local public non-financial corporations.

(e) Includes life and other insurance corporations; central borrowing authorities; and other financial institutions.

### F3 FOREIGN EQUITY HOLDINGS, by Degree of Foreign Influence and Type of Equity(a) - at 30 June 2001

Equity held by rest of world	DIRECT INVESTMENT ENTERPRISE GROUPS					OTHER ENTERPRISE GROUPS	ALL ENTERPRISE GROUPS.....			
	10-50% owned by direct foreign investor(s).....			Over 50% owned by direct foreign investor(s).....						
	Direct Portfolio	Total		Direct Portfolio	Total		Total	Direct Portfolio	Total	
				\$ billion						
All sectors	15.4	1.2	16.6	162.4	0.5	162.9	165.3	177.8	167.0	344.8
Sub-sectors(b)										
Corporate trading enterprises(c)	12.5	1.0	13.4	141.8	0.5	142.3	117.3	154.3	118.7	273.0
Banks	0.2	-	0.2	7.0	-	7.0	38.5	7.1	38.5	45.6
Non-bank deposit taking institutions	0.1	-	0.1	3.9	-	3.9	-	4.0	-	4.0
Other financial sub-sectors(d)	2.7	0.2	2.9	9.8	-	9.8	9.6	12.5	9.8	22.3
				PERCENTAGE						
All sectors										
Proportion of total equity on issue	1	-	1	13	-	13	14	15	14	28
Proportion of total equity held by rest of world	4	-	5	47	-	47	48	52	48	100

(a) The type of equity dissection in the table shows foreign direct investment equity holdings separately from foreign portfolio equity holdings. Direct investment equity holdings refers to holdings of direct investors; that is, investors who own 10% or more of the voting shares of an enterprise. Portfolio investment equity holdings refers to holdings of all other investors, covering their holdings in both direct investment enterprise groups and other enterprise groups.

(b) Data for Reserve Bank are not shown, as there is no foreign ownership in this sub-sector.

(c) Includes private non-financial corporations; and national, state and local public non-financial corporations.

(d) Includes life and other insurance corporations; central borrowing authorities; and other financial institutions.

This page last updated 8 December 2006

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